

Manual for Federal Grants Management

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Introduction

During the last several years, federal agencies have put more emphasis on states' responsibility to provide fiscal oversight of federal funds that states grant to sub-recipients. In response, the Vermont Department of Education has increased its fiscal monitoring efforts and sought to provide more and better information and assistance to local education agencies (LEAs) on the requirements and processes of federal grants management.

The first step that the department took to strengthen fiscal oversight was to develop and implement a system of federal fiscal monitoring. Conducting numerous on-site visits under this system drove home one consistent message – when LEAs do not comply with certain federal fiscal requirements, it is usually because they are unaware of them. While federal grants and their requirements have been with us for decades, turnover in staff on the local level and spotty information and training over the years have left many grant managers on the state and local levels unaware of what those requirements are or even where to find them articulated. Consequently, the department's next step in providing fiscal oversight has been to supplement its monitoring effort with an increased effort to provide information and training. This manual is part of that effort.

The information assembled here is meant to assist both program and fiscal managers of federal grants with the fiscal administration of those grants. However, it is supplemental at best. It does not address all areas of grant management. It does not address the specific program requirements that accompany every grant; grant managers at the department have done an excellent job in training program coordinators on the purposes and uses of funds under a specific federal title or program. Nor does it go over the general accounting principles that business managers apply and are expert in as they construct their organizations' fiscal records. This manual intends only to make accessible and understandable the more important of those uniform federal requirements that apply to how fiscal transactions are made and documented when federal funds are used by LEAs under federal grants.

The manual organizes this information in the following manner:

- *Chapter I – What are the Requirements* - the types of requirements that apply to federal grants management and where they are found
- *Chapter II – Administrative Structures and Controls* - the fiscal processes and the internal controls necessary for administering federal funds
- *Chapter III – Grant Management* - procedures for drawing down, obligating, expending and reporting grant funds
- *Chapter IV – Grant Expenditures* - how federal funds are expended and documented.

In addition to this information, the appendices contain suggested formats for some of the fiscal procedures discussed in the manual.

Chapter I – What Are the Requirements?

As taxpayers, we are often shocked but not surprised when we read of federal funds being wasted or misused. Conversely, as recipients of federal funds, we are often dismayed by the all the “red-tape” that accompanies federal funds. It requires only a moment of reflection to establish a “cause and effect” relationship between these two feelings. Because proper oversight of federal funds is made difficult by the sheer volume of federal expenditures and by the fact that expenditures are made so remotely from the federal agency providing the funds, the federal government has established uniform procedures for the use of federal funds that are meant to minimize the potential for fraud or misuse of federal funds. These constitute the federal fiscal requirements that accompany all federal grants.

While most grant managers are aware that fiscal requirements accompany federal funds, even the most informed grant manager may have difficulty locating all of them. That is because they are not found in one document or even in one kind of document. There are, in fact, three kinds of requirements and these vary according to the whether the grant recipient is an LEA, a non-profit organization or a higher education institution. The requirements that are identified in this manual are those that apply to state and local governments among whom are Local Education Agencies (LEAs) – be they supervisory unions, supervisory districts, or school districts.

Systems of Control

The first layer of requirements are administrative requirements. These identify the administrative systems and procedures that must be in place to receive, expend, account for, and report on the uses of federal funds. The common rule that governs the administration of all federal grants to state and local governments is articulated in *OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments*.

Federal agencies are required to incorporate OMB Circular A-102, often referred to as the “Common Rule,” into the statutes that govern their grants. It is incorporated into education statute in *34 CFR Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*. This statute organizes administrative requirements into pre-award, post-award, and after-the-grant requirements:

- Pre-award Requirements - address how eligibility is established and how grants are awarded
- Post-award Requirements - identify the systems of internal controls, cash draw-down, procurement, property acquisition and disposition, sub-granting, monitoring, reporting, and record keeping for grant administration
- After-the-Grant Requirements - describe grant close-out and fund recovery.

Grant Management

The general requirements that apply to the management of federal education grants can be found in two statutes:

- *34 CFR Part 75 – Regulations That Apply to Direct Grant Programs* – these regulations apply to grants that an LEA receives directly from the federal government
- *34 CFR Part 76 – Regulations That Apply to State-administered Programs* – these regulations apply to grants that an LEA receives as a sub-recipient of the Vermont Department of Education.

These two statutes articulate program and fiscal provisions for:

- How funds are to be distributed to the LEAs

- Any program or fiscal conditions that must be met on the state/local level such as match, maintenance of effort, supplement not supplant, comparability
- The development of applications and amendments that identify the activities that support the purposes of an act
- How grant recipients are accountable for fiscal reporting and for reporting of program performance.

These regulations also identify appropriate fiscal procedures that include accounting, payments, procurements, obligation and expenditure of funds, and grant changes. In some instances they build on the cost principles and add detail on such activities as purchases, contracts, and ownership.

Cost Principles for Expenditures

The final layer of requirements are those found in the cost principles. The cost principles identify how federal funds can be expended. They are found in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Government*. Just recently, this circular was codified in federal statute 2 CFR Part 225.

This statute has two main sections:

- Appendix A - identifies how federal monies can reasonably be used to cover costs – direct or indirect – associated with carrying out the purposes of the grant.
- Appendix B – identifies the allowability of costs in over 40 different cost areas and, when necessary, the steps to go through to identify the level of federal participation in those costs. Included are such determinations as the necessary documentation around salaries and fringe benefits, how funds can be used to cover facility and equipment usage, the ban of the use of federal funds for such things as alcohol and fund-raising, and the requirements around the purchase and maintenance of equipment.

While this manual will highlight and offer guidance on the requirements found in these sources that are most often encountered by LEAs, there is no substitute for going directly to the source for full information on federal fiscal requirements. The general administrative requirements can easily be found in EDGAR or by going to the Federal Fiscal Services section of the VT DOE Web site: http://education.vermont.gov/new/html/pgm_finance_federal.html. Copies of federal statutes and federal guidance pertaining to specific titles and other education grants can be found at www.ed.gov.

Chapter II – Administrative Structures and Control Systems

Accounting Records

Requirement:

34 CFR §80.20(b) – Standards for financial management systems

(2) Accounting records- Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

(4) Budget Control – Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

Problem:

The foundation of fiscal management of a federal grant is the grant's accounting record. LEAs normally have a current accounting record for each grant. However, when funds are sub-granted to schools, schools often do not create an accounting record for each grant and post expenditures to that account. They often just identify general fund expenditures for grant reimbursement. Moreover, on both the LEA level and school level, accounting records sometimes do not integrate and track against the grant's approved budget. The accounting record cannot be used for budget control when encumbrances and expenditures are not posted to the grant as they occur and when they are not tracked against an approved budget.

Solution:

When a grant is received, an accounting record should be created that incorporates the amount of the award and the approved budget in its line-item budget. The accounting record should at least have budget lines for each general area of planned expenditures such as salaries, benefits, contracted services, memberships and fees, equipment, supplies and materials, administration and indirects if they are being charged to the grant, and transfers/subgrants if the grant is passing funds on to another account or sub-recipient. Provision should be made to track encumbrances, expenditures, and available balances against each budget line to exercise budget control.

As encumbrances and expenditures occur, they should be posted directly to the appropriate budget line within the grant's accounting record. Sometimes grant recipients will post expenditures to the general fund and then, at a later date, transfer from the grant to cover that expenditure. This is often the case for schools. Salaries of staff working under federal grants get posted to the general ledger and, periodically, the supervisory union (SU) will reimburse them for those funds. However, even when expenditures will be reimbursed, salaries should be posted to the grant accounting record and the SU should reimburse periodically to balance the account. Reimbursements should be cleared up at least quarterly before the SDE 1.1 is filed so that reporting of expenditures is current and accurate. Good fiscal management is possible only if the fiscal record is current in its reporting of encumbrances and expenditures.

Consolidated Accounts

Requirement:

NCLB allows eligible supervisory districts (LEAs) to consolidate funds under a REAP. Eligible schools can consolidate funds under school-wide programs (SWPs). LEAs can consolidate the administrative funds of most titles included in the Consolidated Federal Programs (CFP) application.

Problem:

While funds can be consolidated, they must be reported and drawn down under the contributing titles. Consequently, most LEAs assign activities to related titles and draw down funds as those activities are carried out. Federal program audits have interpreted this accounting method as undermining the consolidation of funds and as jeopardizing the ability to use funds outside the constraints of the various titles.

Solution:

To promote the efficient and effective use of federal grant funds, many federal education grants now allow for consolidating the funds from a number of grants into a single fund that does not carry the same restrictions as the grants that contributed to it. This allows grant recipients to create larger pools of funds and provides them more flexibility in the use of these funds. The most common instances in which LEAs can consolidate funds are:

- A School-wide Program (SWP) – eligible, high-poverty schools can consolidate funds from Title I and the other grants distributed through Vermont’s Consolidated Federal Programs for the purpose of supporting a school-wide plan for improving student performance
- A Rural Education Achievement Program (REAP) – small, rural, high-poverty supervisory unions/districts can consolidate their CFP funds except for Title I
- Consolidated Administration Funds – LEAs can consolidate the administrative funds available to them under the CFP for the purpose of the administrative coordination of these titles.

While grant managers can best define the eligibility and program requirements that accompany these options, federal guidance suggests that the fiscal basis for the consolidation of funds should be the creation of a consolidated account. Initially, this guidance caused both consternation and confusion because funds that are expended from the supporting titles must still be reported and drawn down under the contributing titles. However, there is an accounting procedure that successfully and easily consolidates, draws down, and reports funds. Under this approach, an accounting record is created for each set of consolidated funds. Expenditures for activities covered by the consolidated fund are posted directly to this accounting record.

To provide revenue for the consolidated account, the accounting record for each contributing title has a budget line to transfer funds to it. Periodically, at least once a quarter, funds are transferred from the titles to cover the consolidated fund expenditures. Federal guidance says that the LEA “...may use any reasonable method to demonstrate how Federal funds in a school-wide program have been expended. For example, the LEA could allocate expenditures of Federal funds in a school-wide program in proportion to the amount of funds allocated to the school under each Federal program.” (Title I Fiscal Issues: Non-regulatory Guidance, p. 51) The cited example is referred to as the “percent in – percent out” method wherein funds are drawn down from each title in proportion to their contribution. The amounts that the titles contribute to each consolidated account is detailed in the LEA’s CFP application.

While this approach requires the creation of additional accounting records, it does simplify the manner in which federal funds can support school-based activities. The LEA can sub-grant one set of funds to schools and schools can track their federal expenditures with one accounting record. More importantly, from a program point of view, school personnel no longer view these expenditures under the requirements of the contributing titles and can focus on how the supported activities can advance school improvement.

Internal Controls - Approval

Requirement:

When procuring property and services under a grant, a State [LEA] will follow the same policies and procedures it uses for procurements from its non-Federal funds. 34 CFR § 80.36(a)

Problem:

The federal government assumes that the SEA and LEAs comply with the generally accepted accounting principles (GAAP) for governmental institutions. These provide for:

- a segregation of duties in the approval of fiscal transactions and
- approval and posting of both encumbrances and expenditures.

The “segregation of duties” is the basic tenet of administering federal funds that no one person should be able to both authorize a transaction and to record the transaction in the accounting record. Most LEAs do not document the review of fiscal transactions by two people. Some LEAs do not routinely require approval of or post encumbrances.

Solution:

To meet the federal expectation for segregation of duties, a fiscal transaction should be approved:

- by a person, normally the program manager, who can attest that the planned/actual expenditure is allowable and approved under the grant and
- by another person, normally the business manager or his/her designee such as the grant accountant, who can attest to the availability of funds and to its consistency with the approved budget and who enters the transaction into the fiscal record.

To demonstrate that these duties have been segregated, the person responsible for each part of the transaction should initial or sign the documentation for the transaction.

Most LEAs can easily provide for the approval of expenditures since invoices, reimbursement forms, and the like are usually reviewed by both the program manager and the grant accountant. Meeting the federal expectation that encumbrances also be approved and tracked is sometimes more difficult and time consuming. When the system is working right, purchase orders and other types of encumbrances such as contracts receive program and fiscal review and approval and get entered as encumbrances into the accounting record. If this occurs, the accounting record always tracks the amount of uncommitted funds and enables grant managers to plan accordingly. Often LEAs enforce this practice by requiring purchase order numbers for all payments. However, this safe-guard loses its effectiveness when purchase orders are submitted contemporaneously with invoices. Another misuse of the purchase order system frowned upon by federal auditors is the practice of issuing open-ended or non-specific purchase orders. Federal expectations are that that purchase orders are approved before the fact and that they are specific as to the items that will be purchased.

Posting encumbrances and expenditures directly to the grant is important for several reasons. First, it is clearest way to connect federal funding to specific activities. This is a requirement not only for the SU but for all schools that are sub-recipients of funds coming to the SU. Secondly, managing a grant to the available funds and the approved uses is possible only when the accounting record is current and accurate. Finally, those same attributes are also necessary to report on and draw down grant funds in a timely fashion. An accurate reporting of expenditures

and anticipation of future expenditures is the best way to avoid using or borrowing unnecessarily general funds to cover federally-assisted activities.

Sub-grants

Requirement:

34 CFR § 76.302 – A State (LEA) shall notify a subgrantee in writing of:

- (a) The amount of the subgrant;*
- (b) The period during which the sub-grantee may obligate funds; and*
- (c) The Federal requirements that apply to the subgrant.*

Problem:

The SU as the LEA is the recipient of CFP funds. It expends funds on the SU level for district-wide activities. It passes on to school districts all or some of the funds to support school-based activities. Whenever funds are moved from one legal entity to another, it is either a contract or a sub-grant and that transaction must meet the applicable requirements. A contract is used to purchase services. A sub-grant is awarded to support the purpose/ work of the sub-grantee. When an SU passes on funds to member school districts, it should be viewed as a sub-grant and the SU should award sub-grants to those school districts. This has not been a common practice of SUs. In the absence of sub-grants, school boards and school personnel are often unaware of exactly how much funds they have, how funds are supposed to be used, and the requirements that accompany them.

Solution:

While it may seem awkward to sub-grant funds to school districts in the region, sub-grants are necessary whenever the SU passes on funds to another legal entity that actually makes the expenditures. Awkward though it may be, it can be done rather quickly. The CFP coordinator usually has already worked up a list of funded activities for schools. The rest of the sub-grant can be built around this. The sub-grant should identify the following:

- The amount of funds
- The funding period and how funds will be drawn down during that period
- The uses of funds – this can be the list of funded activities
- The requirements that go along with the funds, e.g. administrative requirements (account records and documentation), cost principles.

With the investment of a little time, the issuance of a sub-grant can strengthen grants administration. The development of a sub-grant document gives the SU the chance to describe how internal controls will be exercised – who will keep the accounting record, where appropriate documentation will be kept, how the sub-recipient will report expenditures and draw-down funds. Having responsibilities identified up-front protects the SU and the school districts from things slipping between the cracks. When the superintendent or the CFP coordinator goes to the school board to have the sub-grant signed, it is a good opportunity to remind the school board of how federal funds have to be used, what outcomes are sought, and the requirements that go along with them. This dissuades school boards from viewing federal funds as a way to cut always-tight budgets. Finally, the awarding of the sub-grant reminds the school that controls have to be in place and reminds the SU that it has the responsibility to monitor and enforce those controls.

A format that can be used for sub-grants can be found in Appendix A but the SU always has the opportunity to develop something that better serves its purpose.

Chapter III – Grant Management

Grant Period

Requirement:

34 CFR §76.708 – When certain subgrantees may begin to obligate funds.

(a) If the authorizing statute for a program requires a State to make subgrants on the basis of formula, the State may not authorize an applicant for a subgrant to obligate funds until the later of the following two dates:

(1) The date that the State may begin to obligate funds; or

(2) The date the applicant submits its application to the state in substantially approvable form.

(b) Reimbursement for obligations under paragraph (a) of this section is subject to final approval of the application.

(c) If the authorizing statute for a program gives the State discretion to select subgrantees, the State may not authorize an applicant for a subgrant until the subgrant is made. However, the State may approve pre-agreement costs in accordance with the cost principles.

Problem:

For most grants, the fiscal year runs from July 1 to June 30 of the next year. Often the LEA will assume that it can post expenditures to a grant or re-code expenditures to the grant starting July 1. However, the grant period for an LEA never starts until it has a “substantially approvable” application on file.

Solution:

Years back, the beginning of the grant period was not a big issue for the LEA because grant expenditures rarely occurred before schools opened in September. Now, however, summer schools are common place, teacher conferences occur throughout the summer, and schools start staff training in August. In this environment, the fiscal manager must understand and pay close attention to when grant funds can be obligated. Obligations made prior to the fund availability will automatically be disallowed and the state has no authority to waive such disallowances.

To make sure that federal funds are available at the beginning of the fiscal year, the program manager should have the application on file well before the beginning of the fiscal year. The grant manager on the state level will usually notify the LEA that the grant is “substantially approvable” when the state review of the grant determines that the activities, by and large, are allowable under program requirements and the cost principles. At that point, obligations can be made against the grant. In no case, however, can funds be obligated prior to the date of submission. That means that no activity can be funded by the grant prior to the date of the submission of the application and its designation as “substantially approvable.”

As soon as the grant application has been judged to be “substantially approvable,” all activities that are to be funded under the grant should be posted to the grant even though the grant may not be officially awarded. Oftentimes, the program manager will have to supply additional materials after the grant is judged “substantially approvable” and before an application is finally approved and the grant awarded. It is always best practice to code expenditures to the grant as they occur rather than re-coding them at some point in the future. Recoding expenditures always clouds the transparency of the fiscal record even when those expenditures are fully identified and documented.

Amendments

Requirement:

34 CFR § 80.30

(c) Budget Changes (1) *Non-construction projects.... Grantees and subgrantees shall obtain prior approval of the awarding agency whenever any of the following changes is anticipated under a non-construction award.*

(i) *any revision which would result in the need for additional funding.*

(ii) *Unless waived by the awarding agency, cumulative transfers among direct cost categories, or if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds \$100,000.*

(d) Programmatic Changes. *Grantees or subgrantees must obtain prior approval from the awarding agency whenever any of the following actions is anticipated:*

(1) *Any revision in the scope or objectives of the project (regardless of whether there is an associated budget revision requiring prior approval).*

(2) *Need to extend the availability of funds.*

Problem:

Program managers sometimes authorize expenditures for activities that are not part of the approved application or make expenditures in anticipation of submitting an amendment.

Solution:

The general rule is that grant funds cannot be expended on an activity until that activity has been approved. This approval cannot be retroactive. When a grant is awarded, the LEA has authority to fund the activities at the amounts approved in the application. During the grant year, however, program managers will often change their funding strategies for a variety of reasons:

- They didn't request all the funds when the application was filed and now want to add activities and request more funds
- They decide to change the funded activities in the grant
- They decide to move funds between approved activities because costs are different than they anticipated.

Whenever such changes are planned, the LEA must file an amendment and get approval for the proposed changes before expenditures are made on any of them. Knowing when to amend the grant is straight-forward when in regards to activities funded by the grant. If activities are being added or changed, an amendment is necessary. It is less clear when funds are being moved between approved activities. The regulation states that, when the sum total of those moves within a grant exceeds 10% of the grant amount, then an amendment should be filed which details those moves. A more general rule to use is that minor adjustments to budgeted costs – e.g. adjusting benefits to reflect actual costs – usually will not require an amendment but significant changes in the scope and cost of an activity – e.g. raising a position from half-time to full-time – almost always will. In any case it is better to err on the safe side and amend the grant to reflect current funding strategies and amounts.

Obligation of Funds

Requirement:

34 CFR § 76.707 – When obligations are made - The following table shows when a State or a sub-grantee makes obligations for various kinds of property or services.

<i>If the obligation is for-</i>	<i>The obligation is made -</i>
<i>(a) Acquisition of property.</i>	<i>On the date on which the State or subgrantee makes a binding written commitment to acquire the property</i>
<i>(b) Personal services by an employee.</i>	<i>When the services are performed.</i>
<i>(c) Personal services by a contractor who is not an employee of the State or subgrantee</i>	<i>On the date on which the State or subgrantee makes a binding written commitment to obtain the services.</i>
<i>(d) Performance of work other than personal services</i>	<i>On the date on which the State or subgrantee makes a binding written commitment to obtain the work.</i>
<i>(e) public utility services</i>	<i>When the State or subgrantee receives the services</i>
<i>(f) Travel</i>	<i>When the travel is taken</i>
<i>(g) Rental or real or personal property</i>	<i>When the State or subgrantee uses the property.</i>

34 CFR §80.50 – Closeout

(b) Reports. Within 90 days after the expiration or termination of the grant, the grantee must submit all financial , performance, and other reports required as a condition of the grant.

Problem:

Confusion arises at the end of a grant year around which grant award to charge for certain expenditures. For example, the LEA has to pay for a conference registration in June for a conference that will occur in August.

Solution:

Expenditures that occur during the transition from one grant year to another always need to be examined carefully. The general rule is that the expenditure is assigned to the grant year during which the obligation is made. The chart in the regulations clarifies when the obligation occurs for various kinds of expenditures. When an LEA contracts for goods or services from external vendors, then the obligation occurs when the contract is entered into. Pre-paying a conference registration can be considered as contracting for a service. Hence, that payment can be assigned to the grant year during which it was made even though the conference may occur during the next fiscal year. This holds true even when a contract is entered into in one fiscal year but no payment is made until the next. As long as payment is made during the 90 days that the LEA has to closeout the grant, it can be reported as part of the final report for the grant year.

Of course, things are not always that simple. Sometimes services may be contracted that extend beyond this 90 day period. What then? One answer, albeit maybe not the best, is that entering into contracts that extend beyond that 90 day window should be delayed until after the beginning of the next fiscal year or structured to end prior to the end of the closeout period with a provision for re-issue after the beginning of the new fiscal year.

While contracts are difficult to manage during the transition from one fiscal year to the next because the obligation and actual expenditure happens at different times, other expenditures are more simple and straight-forward. Obligations for payments to staff, for utilities, for travel, and the like occur after the services have been rendered. So the obligation occurs on the day that the person worked, the utility was provided, or the travel was taken. Because many of these expenditures are unavoidable from day one of the new fiscal year, it is imperative that the grant application be filed and in a substantially approvable form before the fiscal year begins.

Reporting and Drawing Down Funds

Requirement:

34 CFR § 76.730 – A subgrantee makes reports required by the State. A State may require a subgrantee to furnish reports that the State needs to carry out its responsibilities under the program.

34 CFR § 80.21 – Payment – (b) Basic standard . Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.

(c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by the grantee or subgrantee.

Problem:

The department utilizes the quarterly SDE 1.1 for both reporting expenditures and requesting advances. On occasion, an LEA may not file a SDE 1.1, may file it late, or may not accurately anticipate the funds needed during the next quarter.

Solution:

The department is required to accurately report grant expenditures on a quarterly and annual basis. In order to do that, it requires subgrantees – LEAs - to report their expenditures on a quarterly and annual basis through their submission of the SDE 1.1. Most LEAs, however, see the SDE 1.1 as a vehicle for drawing down funds which sometimes affects its reporting function:

- An LEA may not file an SDE 1.1. because it does not need funds for the up-coming quarter
- An LEA may not file it in a timely fashion so that the information is not included in the report filed by the department
- An LEA may reimburse schools infrequently and not report funds as expended long after they have been obligated
- An LEA may overlook filing a final report because the grant year is over.

An LEA should take several steps to support accurate reporting and sound grant management. Schools should be reimbursed for their grant expenditures on a quarterly basis. Salaries for people working under multiple cost objectives should be aligned with actual time worked under those cost objectives on a quarterly basis. When all expenditures are posted to the grant and all adjustments are made prior to filing the SDE 1.1, then accurate reporting is possible and program and fiscal managers are up-to-date on the status of the grant.

The LEA should also attempt to forecast as accurately as possible the amount of grant funds it will need in the up-coming quarter. Federal regulations require that funds be drawn down only as they are needed. The department draws down only those funds it will expend in the next three days. It does not have a system, however, to accomplish this for subgrantees. Instead it allows

subgrantees to request funds for the next quarter and then makes monthly payments against those requests. In essence, then, subgrantees should have on hand only enough funds to cover a month's expenditures. To demonstrate that it is drawing down only enough funds to cover anticipated expenditures, an LEA should specifically identify its anticipated expenditures and keep that on file to document that it is drawing down only what is needed for the up-coming quarter.

Chapter IV - Grant Expenditures

The last chapter dealt with the system of controls necessary for assigning, tracking, reporting and protecting federal expenditures under a grant. This chapter describes how federal funds can be expended. Much of this discussion occurs in the cost principles, other parts are developed in various sections of EDGAR. By organizing this information by the types of expenditures that can occur or not occur under a federal grant, this chapter tries to clarify how federal funds can be expended and documented.

Before discussing any specific expenditure, the cost principles lay out the general criteria for expenditures under a federal grant. Expenditures must be:

- Necessary – the expenditure must be necessary to carry out the purpose of the grant
- Reasonable – the expenditure must be what a reasonable person would expect to pay for the goods or services
- Allowable – the expenditure must be authorized under the grant and in conformance with the cost principles and not prohibited by federal, state, or local law
- Consistent – the expenditure must be consistent with how other expenditures are made by the grant recipient.

If ever an expenditure is considered that is not addressed in the cost principles or the grant requirements, always apply these four criteria to determine whether the expenditure is defensible.

Direct and Indirect Expenditures

Requirement:

2 CFR §225, Part A - E. Direct Costs

*1. General. Direct costs are those that can be **identified specifically with a particular final cost objective.***

2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards .b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards. c. Equipment and other approved capital expenditures. d. Travel expenses incurred specifically to carry out the award.

F. Indirect Costs

*1. General. **Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.** (OMB A-87)*

76 CFR § 76.561 – Approval of indirect cost rates.

(b) Each State educational agency, on the basis of an approved plan by the Secretary, shall approve an indirect cost rate for each local educational agency that requests it to do so.

Problem:

For over a decade, the department did not set or provide information on indirect cost rates. As a result, LEAs had little understanding of how to cover indirect costs such as accounting and fiscal management. Some simply assigned a portion of administration funds allowed under a grant to cover these functions and transferred this amount to that budget center.

Solution:

The distinction between direct and indirect costs is the basis for determining how expenditures get posted to a grant and get documented. For that reason, the cost principles begin the discussion of how federal funds can be expended with a discussion of direct and indirect expenditures. When you receive a federal grant, it includes a set of approved activities that carry out the purpose of the grant. The costs of these activities are referred to as “direct costs.” Direct costs are easily identifiable and assigned to a grant. When a person carries out the work of the grant, his/her time spent doing so is recorded and a proportionate part of his/her salary and benefits are posted as direct costs to the grant. The same is true of costs of the other activities included in the grant proposal such as professional development, instructional supplies, etc.. They are documented and posted as direct costs to the grant.

The federal government realizes, however, that the true cost of carrying out the grant includes both these direct costs and a portion of the costs of central office functions that support the administration of the grant. These central office costs such as accounting, payroll, and human resources are referred to as “indirect costs.”

Because it is inefficient or impossible to separate out such costs, federal regulations provide for their recovery through allocating them to the cost objectives that they support. This cost allocation process assumes that these support costs are proportionate to the amount of funding being administered. Regulations prescribe a way to calculate what is spent on general management (indirect costs) for every dollar that is spent on operations (direct costs). The percentage that indirect costs are of direct costs is the indirect cost rate. For example, if the total cost of operations of schools in SU region A is \$20 million dollars and the total central office costs for accounting, payroll, etc. are \$400,000, then SU region A’s indirect costs are 2% of its operating or direct costs. In this instance, it would have an indirect cost rate of 2%.

In order to charge indirect costs to any federal grant, the LEA must have an indirect cost rate set by the department. A manual and worksheet are available through the department web-page or from the Federal Fiscal Services team. In setting indirect cost rates, the department sets them for a supervisory region – the supervisory union/district and all its member school districts. To obtain an indirect cost rate, the supervisory union/district must report the direct and indirect costs for itself and the school districts in the region.

Once the LEA has an indirect cost rate, it and/or its schools can apply the indirect rate to all direct expenditures made under federal grants. However, there are certain caveats that apply.

- Indirect costs are recovered only after expenditures have been made under a grant. The indirect cost rate is applied to the direct cost amount expended, not to the grant award.
- Recovering indirect costs does not increase the amount of the grant. The amount of a grant that goes toward indirect costs reduces the amount available for direct grant expenditures.
- Indirect costs are one of administrative costs to a grant. Indirect costs cannot be charged if the grant prohibits administrative expenditures. If the grant has an administrative ceiling, your combined direct administrative expenditures and your indirect expenditures cannot exceed the amount allowed for administration.
- The indirect cost rate is the maximum that can be charged to any one grant. If you cannot charge an indirect rate under one grant, you cannot make up for it with a higher rate under another grant. You can always apply a lower rate to a specific grant but you can never apply a higher rate.

- An indirect cost under one grant can not be a direct cost under another grant. If indirect funds are utilized to pay for your central office functions, then central office functions cannot be direct costs under another grant.

Not every LEA will opt to utilize an indirect cost rate. It takes, on average, two or three hours to pull together the fiscal data and fill out the worksheet. Moreover, the indirect cost rate for LEAs is quite low – somewhere in the area of 1.5% to 2.5%. The reason a LEA would utilize an indirect cost rate goes to the heart of difference between indirect costs and direct costs and that is how costs must be documented. All direct costs must be documented in a way which demonstrates that the expenditures supported the grant. The rest of this chapter lays out how different direct costs are documented. Indirect costs do not have to be documented. When an LEA draws down indirects against direct costs, it has already earned the indirects and can merely reimburse indirect cost centers for services already provided.

Salaries and Wages

Requirement:

2 CFR §225, Part B.8 -3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5). Such documentary support will be required where employees work on:

- (a) More than one Federal award,*
 - (b) A Federal award and a non Federal award,*
 - (c) An indirect cost activity and a direct cost activity,*
 - (d) Two or more indirect activities which are allocated using different allocation bases, or*
 - (e) An unallowable activity and a direct or indirect cost activity.*
- (5) Personnel activity reports or equivalent documentation must meet the following standards:*
- (a) They must reflect an after the fact distribution of the actual activity of each employee,*
 - (b) They must account for the total activity for which each employee is compensated,*
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
 - (d) They must be signed by the employee.*

Problem:

Salary documentation is required whenever federal funds are utilized to cover salaries, wages, and benefits. Instructions for the Single Audit now highlight this requirement. Insufficient documentation of salaries is one of the most common findings in Single Audits.

Solution:

Far and away, the largest amount of federal funds provided to LEAs is used for salaries and wages. However, every time that federal dollars are spent on salaries, there must be documentation to demonstrate that these expenditures are allowable. Not more than a couple of years ago, few paid any attention to salary documentation. Suddenly, the absence of appropriate documentation appeared as a finding in numerous Single Audits because federal instructions for

such audits made a point of monitoring compliance in this area. Now, every federal audit or monitoring process makes a point of reviewing salary documentation.

The cost principles are often short on details on how federal expenditures should be documented. However, when it comes to salaries and wages, they are very specific. For state and local governments, the documentation requirements to support direct charges for salaries and wages to federal grants generally break down into two major categories:

- employees who work on a single activity or “cost objective” and are required to certify their time semi-annually, and
- employees who work on multiple cost objectives and are required to prepare and certify a Personal Activity Report (PAR) documenting the amount of effort performed on each cost objective.

The issue of single versus multiple cost objectives is what determines the format of the documentation required to support the charges to the grant. A cost objective is the set of activities that are allowable under a federal grant. Each federal grant has a specific purpose and set of fundable activities – these constitute a cost objective. A single cost objective can have multiple funding sources. Often local funds supplement federal funds to support an employee carrying out a federally funded set of activities or two federal grants support the same activities. Employees work under a single cost objective when all their activities could be supported by any of the funding sources covering their salaries. When employees work under a single cost objective, the documentation requirement is a semi-annual certification attesting to this fact.

The key elements of a semi-annual certification is it address a period of time that has elapsed – no longer than six months - and that it must be signed by the employee and/or supervisor. Because most school personnel work on a semester basis, at the end of each semester a semi-annual certification should be developed that states that the employee did in fact work under that cost objective for the whole semester. Below is a format for the semi-annual certification:

Semi-annual Certification:

This is to certify that ____ (name) ____ worked solely on the set of activities supported by (name of the federal grant program) during (identify the time period – a particular semester, a specified period not exceeding six months).

(Signed by : the employee and/or supervisor

When employees work under multiple cost objectives – when any one funding source cannot pay for some of the activities performed, they must file personal activity reports that track the percentage of time they actually spent working under those cost objectives.

To meet this requirement, employees only have to report after-the-fact the number of hours a day they spent under each cost objective that constitutes their responsibilities. For example, let’s say a CFP coordinator works under two cost objectives – CFP coordination and Title IIA. Let’s say also that CFP coordination is covered by both Title I and local funds. This split does not have to be made on the timesheet. What needs to appear on the timesheet is the time spent under the two different sets of responsibilities. This can be as simple as the table on the next page:

Cost Objective	M	T	W	T	F	M	T	W	T	F
CFP Coordination*	8	8	8	4	8	8	8	2	8	8
Title IIA Prof. Development				4				6		

* paid 60% local, 40% Title I admin

In the above time-period, the CFP coordinator spent 7/8 of her/his time on CFP coordination and 1/8 of her/his time on Title IIA activities. Payroll would be set up to pay 7/8 of the salary and benefits split between local and Title I funds and 1/8 of the salary and benefits with Title IIA funds. Payroll might also be set up to distribute the cost to budget centers at a pre-determined split. This is allowable but the budgeted and actual distribution of time must be trued up once a quarter – preferably before the SDE 1.1 is filed.

Procurement

Requirement:

Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. (34 CFR 80.36)

Problem:

The documentation that most recipients keep for contracts is an invoice and proof of payment. Many times payment is made prior to the provision of goods and services. However, federal regulations are very insistent that steps be taken to obtain value from the investment of federal funds in contracts and that there be some connection between payment and the satisfactory provision of good and services.

Solution:

After salaries, the next largest area of expenditures of federal grant funds is major purchases of goods and services – primarily the purchases of equipment and contracts for personal services. Federal rules governing procurement go into considerable detail because they are written to govern billion dollar transactions by Defense and other federal agencies. EDGAR incorporates these rules in 34 CFR § 80.36; the task for LEAs is to ferret out how they apply them to the modest transactions that occur under the federal funds they receive.

The simplest approach is to be able to show that you contracted for goods or services within the general criteria provided by the cost principles - that the transaction was necessary, reasonable, allowable and consistent. EDGAR suggests those criteria be applied in the following fashion:

- Necessary – Review proposed procurements to see if they are duplicative or if they could be purchased jointly with other organizations
- Reasonable – Prescriptive steps to obtain the best price are identified for procurements over \$100,000. For “small purchases” that are less than that amount, “price and rate quotations shall be obtained from an adequate number of qualified sources.” [34 CFR § 80.36(d)(1)]
- Allowable – The procurement must be an approved activity under the grant award and must conform with the cost principles.

- Consistent – EDGAR states up front that “Grantees and sub-grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law.” [34 CFR 80.36(b)(1)] The LEA should have a written policy on procurement, e.g. when you publicly bid, and documentation should show that this policy was applied to the procurement process. EDGAR also requires grant recipients to have a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts.

Unless you get a grant directly from the federal government for construction or equipment, odds are that you will always be operating under the rubric of “small purchases.” To comply with the spirit and the letter of the law, you should have on file written procedures for procurement and documentation that you have followed them. Whenever you purchase equipment or enter into a contract, always keep on file the price checks you did to select a vendor or how you established the reasonableness of the charge, e.g. citing fair market value. EDGAR summarizes the documentation requirements in this way: *Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.*” [34 CFR § 80.36(b)(9)].

Equipment and Inventory Control

Requirements:

2 CFR § 225 Part B.15. – Equipment and Capital Expenditures

b.(1) Capital expenditures for general purpose equipment (office equipment, furniture, communications infrastructure) are unallowable as direct charges, except where approved in advance by the awarding agency.

(2) Capital expenditures for special purpose equipment (technical equipment supporting the purpose of a grant) are allowable as direct costs, provided that items...have the prior approval of the awarding agency.

34 CFR §80.34(d) :Management Requirements. *Procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:*

- (1) Property records must be maintained that include a description of the property, a serial number of other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.*
- (2) A physical inventory of property must be taken and the results reconciled with the property records at least once every two years.*
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, theft of the property. Any loss, damage, or theft shall be investigated.*
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.*

Problem:

Equipment, especially computers, are sometimes purchased without explicit approval in the grant award. When equipment is purchased, LEAs often do not have the inventory control system required by federal regulations.

Solution:

One area of procurement in which care should be taken is the purchase of equipment. Federal regulations go into considerable detail on equipment purchase and repair. The under-lying logic of these regulations is that the federal government does not want grant recipients to use federal funds to increase their assets. Only equipment that is necessary to carry out the purpose of the grant is allowable and, once purchased, must continue to be used for that or a related purpose. The cost principles disallow capital expenditures – general purpose equipment, buildings, and land – unless they have approval in advance by the awarding federal agency. General purpose equipment is equipment that is not related to the technical requirements of the grant and refers to such items as office equipment, furnishings, communication networks, reproduction and printing equipment and motor vehicles. Unless the grant specifically names and allows such equipment, avoid such purchases with federal funds. Special purpose equipment, equipment involving functions required by the purpose of the grant, is allowable but needs approval of the awarding agency.

When equipment is purchased, a system of controls must be in place to track its use and maintain it in working condition. No single area has been cited for non-compliance more often than the requirement that an inventory be created and maintained of equipment purchased with federal funds. Either LEAs are unaware of this requirement or they confuse it with a similar requirement under governmental accounting standards (GASB) that they maintain an asset inventory. The federal requirement applies to equipment purchased in whole or part with federal funds. Federal regulations define equipment as “tangible, non-expendable, personal property having a useful life of more than one year and an acquisition cost of \$5000 or more.” However, federal auditors have practically expanded this definition to include computers and other IT equipment because of the large amounts of funds that schools invest in their purchase. When such equipment is purchased, information on its serial number, vendor, purchase price, and level of federal participation has to be kept. It also has to be tagged (with an indelible material) and tracked through the LEA’s property records.

Because this system of inventory control far exceeds the information kept on file for the LEA’s asset inventory and because it applies to a small percentage of total assets, most grant recipients have created a stand-alone system to track and maintain federally purchased equipment. The system can be initiated by simply recording such equipment in a table similar to the one below:

Tag #	Serial #- Description	Vendor	Cost & Date	Fed. %	Location/Use

The creation of the inventory is the first step in implementing a system of inventory controls and should be followed up by having on record the LEA’s procedures for maintaining equipment and maintenance records. The regulation goes on to describe how equipment is used to support the purpose of the grant and how to dispose of equipment purchased with federal funds. Because most schools use equipment until it turns to dust, you might want to refer to the above regulation if you plan to change use of or dispose of equipment.

Contracts

Requirement:

34 CFR 80.36-Procurement standards.

(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders

Problem:

The documentation that most recipients keep for contracts is an invoice and proof of payment. Many times payment is made prior to the provision of goods and services. However, federal regulations are very insistent that steps be taken to obtain value from the investment of federal funds in contracts and that there be some connection between payment and the satisfactory provision of good and services.

Solution:

LEAs have generally taken a fairly casual approach to contracts because most services for which they contract are of a very limited nature. Many contracts are with individuals or small consulting firms to provide professional development or other types of services that are provided over a short period of time. For these types of services, the fiscal record sometimes contains only the invoice from a consultant after the services have been provided.

However, similar to the purchase of equipment, federal regulations go to some length in the discussion of contracts. A good deal of this is devoted to large contracts of \$100,000 and should be studied carefully if a contract of that size is being contemplated. Yet there are general expectations that apply to all contracts that pertain to the “small purchases” category into which most contracts fall. First, as covered in procurements, records must be kept on the selection of the vendor. Secondly, an actual contract must be developed and part of the fiscal record. The contract, minimally, should state the work specifications, payment provisions, and applicable federal or state laws. Finally, the LEA must have a contract administration system that provides for oversight of contract performance and payment. To document contracts adequately, therefore, you should have the following items in your financial record:

- records to show that you took steps to obtain the best price – bidding or cost comparison
- a copy of the contract
- the contract should identify the contract manager, clear work specifications and payment provisions
- statement by the contract manager that the work specifications have been fulfilled.

Expenditure Documentation

Requirement:

Expenditures should have documentation as part of the financial record from which a third-person can ascertain that the expenditure was part of an approved activity, met the purpose of the grant, and was allowable.

Problem:

Often, when grant funds are being used to pay for food, meals, travel and other like costs, all that is on file is an invoice that has been approved by the grant manager. It is not enough that that the

grant manager determined that this cost was associated with the purposes/activities of a grant. A third person must be able to look at documentation and come to the same conclusion.

Solution:

Federal regulations are short on detail on what is adequate documentation for most expenditures except for the ones already identified. Nonetheless, inadequate documentation is by far the most common cause of questioned costs by federal auditors. Audits drive home the fact that the onus is on the grant recipient's fiscal record to demonstrate that a specific expenditure supports a grant. To determine whether documentation is adequate, consider whether an auditor could review the financial record and conclude – without the benefit of someone explaining further the funded activity – that it was approved in the application and was reasonable and necessary to support the purpose of the grant. In addition to purchase orders and invoices, the types of documentation that should be on file for different types of expenditures are as follows:

- **Salaries** – as stated earlier in this section, documentation should include semi-annual certifications or personal activity reports and evidence that payments reflect work distribution
- **Contracts** – as stated earlier in this section, documentation should include evidence value was achieved, rationale for selection of the vendor, the actual contract, and evidence that the contract administrator determined that contract terms were met
- **Stipends** – if paying for work beyond the regular contract, documentation should include a contract or MOU that states work expectations and payment provisions and, if paying for attending training, a description of the training and a list of participants
- **Equipment** – as stated earlier in this section, documentation should include evidence that value was achieved, rationale for selection of the vendor
- **Meetings, Food, Meals** – documentation that identifies the content of meeting - the agenda or minutes - and the participants
- **Training, Professional Development, and associated expenditures**– documentation that identifies the content and the participants, actual hotel bills, payments for airline tickets, payment for meals (if the LEA's policy is to reimburse for actual costs)
- **Local Travel** – documentation that identifies the miles traveled, the destination, and the purpose of the trip (sufficient to demonstrate it supported the purpose of the grant)
- **Advertising** – documentation should include a copy of the advertisement – remember advertising is only allowable to recruit students and staff or for communication necessary for the purpose of a grant
- **Allocated Costs**- when office materials, communications, utilities and other types of expenditures are assessed to a grant on an allocation basis, a cost allocation plan should be on file to identify the basis and computation of the allocation.

Often this documentation is available somewhere in the office. However it is best practice to file it with invoices because, when records are filed, the chances of this type of information being kept or found is remote unless it is all filed together.

Unallowable Expenditures

Requirement:

34 CFR § 80.20(b)(5) Allowable Cost. Applicable OMB cost principles, agency program regulations, and the terms of the grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Problem:

Grant managers sometimes take considerable latitude in interpreting what activities are approved under a grant and stray into unallowable activities.

Solution:

There are three conditions that must be met in order for an expenditure under a federal grant to be allowable:

- The expenditure must be allowable under the cost principles or, if not, be specifically identified as allowable under the terms of the grant
- The expenditure must be allowable under the terms of grant administration in EDGAR
- The expenditure must be permissible under the terms of the specific grant and approved by the awarding agency.

All three conditions must be met in order for the expenditure to be allowable. Those expenditures that are generally unallowed unless specific provision is made in the terms of the grant are identified in the cost principles. Some of the expenditures commonly assigned to a grant that are unallowable under the cost principles are:

- Entertainment – banquets, celebrations, amusement, and the like, even if they are associated with grant outcomes
- Promotional items and memorabilia – the mug with the school name on it and tee-shirt with the event
- Personal items – goods or services for the personal use of employees
- Alcoholic beverages – even if they are part of a meal that is otherwise allowable
- Fundraising – soliciting funds or grant writing even if they relate to the purpose of the grant
- Legal fees associated with defense and prosecution of criminal and civil proceedings and claims
- Donations – of grant funds or grant-supported activities
- Fines and penalties
- Government expenses – costs of the CEO and the board of a governmental unit

Some expenditures disallowed in EDGAR include:

- The purchase, construction or improvement of land or facilities unless it is the specific purpose of the grant and approved by the awarding agency
- Use of funds for religion, including worship and instruction and associated costs, construction or operation of any facility used for religious activities, and school of divinity programs and activities.

Finally, even though expenditures may be allowable under federal regulations, they are not allocable (allocated) to the grant unless they are approved in the grant application. Even though the program manager is usually the person to allocate the expenditure the grant, the fiscal manager should not approve an expenditure unless it is consistent with the approved budget.